

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-001  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT STAFF

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Assistant Audit Chief  
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Auditor

AUDIT REPORT NUMBER

#08-001

1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Henry Kuechler, President  
Board of Directors  
1-A DAA, Cow Palace  
2600 Geneva Avenue  
Daly City, California 94014

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 1-A District Agricultural Association (DAA), Cow Palace, Daly City, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 1-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the 1-A DAA, Cow Palace, as of December 31, 2007 and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In 2006, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #143, Deferred Charges (stated at \$112,300) as reflected on the accompanying Statement of Financial Condition as of December 31, 2006. As of December 31, 2006, detailed and accurate records to substantiate amounts represented as prepaid in 2006 for 2007 expenditures did not exist. The Fair could



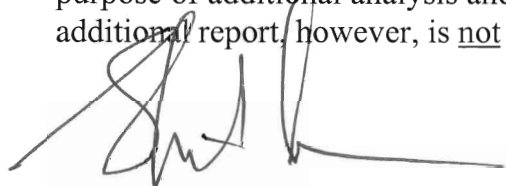
not provide us the supporting documentation to reconcile the account with the balance in the general ledger.

Because of the matter discussed in the fourth paragraph, in our opinion, except for the amount reported in Account #143, Deferred Charges, the 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 1-A District Agricultural Association, Cow Palace, as of December 31, 2006 and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that 1-A DAA will continue as a going concern. As shown in the financial statements, 1-A DAA incurred a net operating loss of \$608,521 during the year ended December 31, 2007, and, as of that date, the current liabilities exceeded its current assets by \$275,938. Those conditions (as discussed in Note 7) raise substantial doubt about 1-A DAA's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if 1-A DAA is unable to continue as a going concern.

The 1-A DAA, Cow Palace has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-001, on the 1-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 1-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA  
Chief, Audit Office

August 29, 2008

**1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111-116	\$ 685,391	\$ 742,553
Accounts Receivable, Net	131	135,382	130,102
Inventory	141	8,443	6,039
Deferred Charges	143	12,610	112,300
Land	191	145,397	145,397
Buildings and Improvements, Net	192	2,674,417	2,637,433
Equipment, Net	193	7,652	41,466
<b>TOTAL ASSETS</b>		<b><u>3,669,292</u></b>	<b><u>3,815,290</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities and Other Credits</b>			
Accounts Payable	212	807,801	384,310
Current Portion of LT Debt	212.5	67,191	40,863
Other Payables	213 - 226	(3,291)	7,746
Deferred Income	228	238,738	311,995
Compensated Absences Liability	245	151,395	122,945
Long Term Debt	250	116,348	40,000
Trust Liabilities	259	7,325	15,125
<b>Total Liabilities and Other Credits</b>		<b><u>1,385,507</u></b>	<b><u>922,984</u></b>
<b>Net Resources</b>			
Net Resources - Operations	291	(360,141)	148,873
Net Resources - Capital Assets less Related Debt	291.1	2,643,926	2,743,433
<b>Total Net Resources Available</b>		<b><u>2,283,785</u></b>	<b><u>2,892,306</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 3,669,292</u></b>	<b><u>\$ 3,815,290</u></b>

**1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Year Ended December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>			
State Allocation	312	\$ 175,000	\$ 175,000
F&E Funding	318	37,100	52,292
Admissions	410	861,414	967,674
Commercial Space	415	88,050	95,626
Concessions	420	193,466	229,239
Exhibits	430	114,768	130,622
Horse Show	440	93,439	114,204
Attractions - Fairtime	460	52,332	63,145
Miscellaneous Fair	470	310,865	298,392
Non-Fair Revenue	480	3,730,511	3,501,945
Prior Year Adjustment	490	65,645	(33,846)
Other Revenue	495	135,487	129,037
<b>Total Revenue</b>		<b><u>5,858,077</u></b>	<b><u>5,723,330</u></b>
<b>EXPENSES</b>			
Administration	500	1,648,605	1,543,243
Maintenance and Operations	520	1,577,910	1,547,765
Publicity	540	316,665	341,361
Attendance	560	1,153,705	1,058,875
Miscellaneous Fair	570	136,913	143,944
Premiums	580	170,828	182,129
Exhibits	630	76,720	71,433
Horse Show	640	65,796	66,774
Attractions - Fairtime	660	1,079,239	931,074
Equipment	723	(19,028)	59,545
Prior Year Adjustments	800	33,151	30,048
Cash Over/Short	850	574	(478)
Depreciation Expense	900	205,520	228,173
Capital Expenditures	945	20,000	42,059
<b>Total Expenses</b>		<b><u>6,466,598</u></b>	<b><u>6,245,945</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		(608,521)	(522,615)
Resources Available, January 1		2,892,306	3,414,921
<b>Resources Available, December 31</b>		<b><u>\$ 2,283,785</u></b>	<b><u>\$ 2,892,306</u></b>

**1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Year Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (608,521)	\$ (522,615)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(5,280)	19,598
(Increase) Decrease in Inventory	(2,404)	(2,694)
(Increase) Decrease in Deferred Charges	99,690	276,434
Increase (Decrease) in Accounts Payable	423,491	(88,657)
Increase (Decrease) in Current Portion of Long-Term Debt	26,328	1,989
Increase (Decrease) in Other Liabilities	(11,038)	(3,629)
Increase (Decrease) in Deferred Income	(73,256)	(80,908)
Increase (Decrease) in Trust Liabilities	(7,800)	1,781
Increase (Decrease) in Compensated Absence Liability	28,450	9,795
Total Adjustments	<u>478,181</u>	<u>133,709</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>(130,340)</b></u>	<u><b>(388,906)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease of Buildings and Improvements, Net	(36,984)	189,797
(Increase) Decrease of Equipment, Net	33,814	27,126
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(3,170)</b></u>	<u><b>216,923</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>76,348</u>	<u>(40,863)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>76,348</b></u>	<u><b>(40,863)</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(57,162)</b>	<b>(212,846)</b>
Cash at Beginning of Year	742,553	955,399
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 685,391</b></u></u>	<u><u><b>\$ 742,553</b></u></u>



**1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 1-A District Agricultural Association (DAA) was formed in 1939, for the purpose of sponsoring, managing, and conducting the Grand National Rodeo, Horse, and Stock Show each year in Daly City, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 8.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from

customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 146,700	\$ 144,700
Cash in Bank - Operating	438,680	202,430
Cash in Bank - Premium	0	1,697
Cash in Bank – Time Deposits	<u>100,011</u>	<u>393,726</u>
Total Cash and Cash Equivalents	<u>\$ 685,391</u>	<u>\$ 742,553</u>

## NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 174,994	\$ 135,937
Allowance for Doubtful Accounts	<u>(39,612)</u>	<u>(5,835)</u>
Accounts Receivable - Net	<u>\$ 135,382</u>	<u>\$ 130,102</u>

## NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$12,813,572	\$12,575,393
Less: Accumulated Depreciation	<u>(10,139,155)</u>	<u>(9,937,960)</u>
Building & Improvements - Net	<u>\$ 2,674,417</u>	<u>\$ 2,637,433</u>

Equipment	\$ 1,468,742	\$ 1,493,937
Less: Accumulated Depreciation	(1,461,090)	(1,452,471)
Equipment - Net	<u>\$ 7,652</u>	<u>\$ 41,466</u>

NOTE 5

**LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Fair Services Authority (CFSA) to finance various capital improvement projects on the fairgrounds. The terms of the agreements are as follows:

Lighting Project Equipment Loan:

Loan Amount	\$ 149,485
First Payment Date	October 2007
Payment Amount	\$ 2,867
Duration of Loan	60 Months
Interest Rate	5.5%
Total Outstanding at 12/31/07	\$ 143,539
Current Portion at 12/31/07	\$ 27,191
Long-Term Portion at 12/31/07	\$ 116,348

South Hall Roof Loan:

Loan Amount	\$ 210,000
First Payment Date	February 2004
Payment Amount	\$45,000 annually
Duration of Loan	5 Years
Interest Rate	5.0%
Total Outstanding at 12/31/07	\$ 40,000
Current Portion at 12/31/07	\$ 40,000
Long-Term Portion at 12/31/07	\$ 0

NOTE 6

**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

#### NOTE 7

#### **GOING CONCERN**

As shown in the accompanying financial statements, 1-A DAA incurred net operating losses for two consecutive years. As of the 2007 balance sheet date, the current liabilities exceeded its current assets by \$275,938 (\$1,117,764 – 841,826), based on the following breakdown:

<b>Current Assets:</b>		<b>Current Liabilities:</b>	
Cash	\$ 685,391	Accounts Payable	\$ 807,801
Accts Receivable, Net	135,382	Current Portion-LTD	67,191
Inventory	8,443	Other Payables	(3,291)
Deferred Charges	12,610	Deferred Income	238,738
		Trust Liabilities	7,325
Total Current Assets	<u>\$ 841,826</u>	Total Current Liabilities	<u>\$1,117,764</u>

Consequently, 1-A DAA was unable to meet its obligations as they became due. These conditions raise a substantial doubt about 1-A DAA's ability to continue as a going concern. Management of 1-A DAA plan to obtain a long-term lease for the vacant surface parking lot that is approximately 12.97 acres in size (development site) located along Geneva Avenue. The 1-A DAA has presented a Request for Lease Proposals (RFLP) for interested private developers to submit proposals for leasing and development of a high quality community and neighborhood commercial projects on the development site.

The intent of this RFLP is for the DAA to select the most qualified and experienced development team which is proposing the highest and most certain economic return to the DAA. The 1-A DAA's ability to achieve the foregoing plan, which may be necessary to generate additional operating revenue and the satisfaction of liabilities in the ordinary course of business, is uncertain.

NOTE 8

**RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 1-A DAA Board of Directors
1	Chief Executive Officer, 1-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA

MANAGEMENT REPORT #08-001

YEAR ENDED DECEMBER 31, 2007



1-A DISTRICT AGRICULTURAL ASSOCIATION  
COW PALACE  
DALY CITY, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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Audit Chief  
Assistant Audit Chief  
Auditor  
Auditor

MANAGEMENT REPORT NUMBER  
#08-001

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Henry Kuechler, President  
Board of Directors  
1-A DAA, Cow Palace  
2600 Geneva Avenue  
Daly City, California 94014

In planning and performing our audit of the financial statements of the 1-A District Agricultural Association (DAA), Cow Palace, Daly City, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Cow Palace with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Cow Palace managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 1-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 1-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 1-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 1-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 1-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 1-A DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Cow Palace's operations: use of state vehicles, carnival revenue, and accounting for fixed assets. We have provided six recommendations to improve the operations of the Cow Palace. The Cow Palace must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 1-A DAA's management. We suggest Cow Palace implement the recommendations as soon as practicable. The Cow Palace, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### USE OF STATE VEHICLES

Our office noted weaknesses in the Cow Palace's internal controls over its management of state vehicles. The Cow Palace currently has thirteen passenger vehicles in its fleet. The CEO is the only employee authorized to use a state vehicle for personal use. Consequently, the CEO annually prepares a Standard Form 377, Vehicle Home Storage Request/Permit, and monthly declares a taxable fringe benefit from the personal use of a state-provided vehicle for round-trip commuting. These are the exact procedures to follow regarding the personal use of a state vehicle.

However, the other twelve vehicles remain in the Cow Palace fleet for business use during the day for its operations and maintenance employees. The Cow Palace does not maintain adequate vehicle travel logs or vehicle trip reports. The vehicle travel logs and trip reports do not always contain pertinent information such as the vehicle numbers, the personnel who used the vehicle, and the beginning and ending meter readings. According to the Department of General Services (DGS), Office of Fleet and Asset Management (OFAM), Fleet Handbook, state agencies are responsible for ensuring a monthly travel log (STD. 273) to be completed on all motor vehicles. Without this information, our office cannot determine whether the Cow Palace's vehicles were used for business purposes only. Overall, maintaining detailed vehicle travel logs and trip reports helps improve internal controls and helps safeguard assets by preventing any misuse of state vehicles by employees. This was a prior year finding.

In addition, the Cow Palace maintains on-site fuel tanks on the fairgrounds for refueling vehicles and equipment. Upon examination of the fuel consumption reports, we noted instances where there were no beginning and ending meter readings and no indication when refills were made on the report. Without accurate meter readings, we were unable to determine if fuel usage was solely for business purposes.

#### *Recommendations*

- 1. The Cow Palace should improve internal controls over the use the state vehicles by adhering to DGS Fleet Handbook and complete DGS form STD. 273, Monthly Travel Log. For using a form other than the STD. 273, a written request should be submitted to the Office of Fleet Administration for review and approval.*
- 2. The Cow Palace should develop and establish written policies and procedures for employees to follow when using its state vehicles. These polices should include a notation that the vehicles are restricted for official state business only.*
- 3. The Cow Palace should improve internal controls over the usage of fuel. At minimum, the Cow Palace should maintain records indicating the fuel's beginning and ending meter readings so that the Cow Palace can determine if fuel was used soley for business purposes.*

## CARNIVAL REVENUE

The carnival contractor did not meet the terms and conditions of its master agreement with the Cow Palace. The two-year carnival contract contained a \$36,000 minimum guarantee plus \$500 per food booth, and \$300 per game. Based on the final revenue reconciliation worksheet prepared by its carnival contractor, the calculated revenue did not exceed the minimum guarantee. The Cow Palace received \$6,000 of the total amount due of \$39,000 and the remaining balance is still an outstanding receivable as of this date. As a result, the carnival contractor underpaid the Cow Palace a total of \$33,000 since the carnival contractor has refused to pay the outstanding amount. As of the balance sheet date, the Cow Palace had not recognized an allowance for doubtful accounts for the outstanding \$33,000. Therefore, overall net resources for the Cow Palace were overstated by \$33,000 on the year-end financial reports.

In addition, the Cow Palace exposed itself to loss by not having both a representative of the Cow Palace and the carnival contractor sign the final carnival settlement sheet prior to payment. The accounting procedures manual (APM) requires both the Cow Palace and the contractor to sign the settlement sheet. These signatures verify that the settlement sheet is reviewed and approved by both parties prior to any final monetary settlement.

### *Recommendations*

4. *The Cow Palace should establish an allowance for doubtful accounts within its general ledger for the \$33,000 outstanding amount owed by the carnival contractor*
5. *The Cow Palace should aggressively pursue all avenues in an attempt to collect the \$33,000 underpayment from the carnival contractor. In the future, the Cow Palace should review the terms and conditions of its master agreement with the carnival contractor to avoid any potential infringement of contractual commitments. Furthermore, the Cow Palace should ensure a representative reviews and approves the final settlement sheet with the carnival operator to avoid any potential disputes at a later date.*

## ACCOUNTING FOR FIXED ASSETS

An audit of the Cow Palace's accounting for fixed assets identified that the Cow Palace did not correctly account for all fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP). Our office noted that the Cow Palace did not record the correct project cost for the Main Arena Ramp Railings. According to the California Construction Authority (CCA) closeout project reconciliation report, the total project cost was \$45,000; however, the Cow Palace only capitalized and depreciated \$10,000 of the project cost. As a result, Account #192, Buildings & Improvements, and the related Account #192.1, Accumulated Depreciation, were understated by \$35,000 and \$9,333, respectively. Accordingly, the net resources available for operations were understated by \$25,667 on the year-end financial statements.

*Recommendation*

6. *The Cow Palace should make the necessary adjusting journal entry to ensure the amounts recorded in Account #192 are fairly stated in the general ledger. In the future, the Cow Palace should ensure that depreciable costs from all funding are capitalized and reconciled with the capital project closeout report from CCA. The Cow Palace should consider contacting the Project Manager at CCA to request supporting documents for completed projects in order to properly capitalize the asset. In the future, this reconciliation should be performed prior to preparing the year-end STOP.*

## NON-REPORTABLE CONDITIONS

### COLLATERALIZATION OF EXCESS FUNDS > \$100,000

In 2007, the Cow Palace's operating account had monthly ending balances over \$100,000. Our audit identified monthly ending bank balances ranging from \$450K to \$2.1M for the calendar year. Currently, the Federal Deposit Insurance Corporation (FDIC) insures all bank accounts to loss up to \$100,000 and any excess amounts would be subject to loss in the event of bank failure. The Cow Palace can transfer funds into LAIF which provides security and higher rates.

According to the Accounting Procedures Manual (APM) Section 2.51, "it is the Fair's responsibility to ensure that deposited funds are collateralized in accordance with Government Code Section 16520-16522..." Government Code Section 16521 requires state agencies to ensure that deposited funds are collateralized by requiring banks to deposit securities with the State Treasurer valued at 110 percent of the uninsured portion. The Cow Palace could not provide any evidence it complied with this requirement during 2007.

#### *Recommendation*

*The Cow Palace should obtain a letter from its bank to ensure that the Cow Palace's funds in excess of the \$100,000 are secure, or transfer the excess funds to the Cow Palace's LAIF account.*

### TEMPORARY EMPLOYEE

The Cow Palace contracted with a 119-day temporary employee for personal services totaling \$4,005. The Cow Palace did not prepare a Standard 210 Agreement for the personal services performed; rather, the Cow Palace only issued an IRS 1099-MISC form. In addition, we noted that there was one instance, according to the 119-day temporary employee's timecard and the 1099-MISC detail report, that the 119-day temporary employee both worked and performed personal services for the Cow Palace on the same day. According to Government Code (GC) 19990, "an employee shall not engage in any employment, activity, or enterprise which is clearly inconsistent, incompatible, in conflict with, or inimical to his or her duties as a state officer or employee." The Cow Palace should refrain from acquiring personal services from employees of the state, as this is a violation of state law.

In addition, the Division of Fairs & Expositions (F&E's) Contracts Manual Section 1.10, states that current state employees, including 119-day temporary employees cannot receive compensation from, or hold financial interest in, any employment, activity, or enterprise sponsored or funded by a state agency that is not required as a condition of state employment. Also, 119-day employees cannot contract as independent contractors with any state agency.



*Recommendation*

*The Cow Palace should discontinue engaging in activities and employments that are considered inconsistent, incompatible or in conflict with their duties as officer. Furthermore, the Cow Palace should comply with GC 19990 and F&E Contract's Manual section 1.10, as it pertains to conflicts of interest and 119-day employees.*

**STANDARD AGREEMENTS**

The Cow Palace did not always develop a Standard Agreement for all contractors who performed personal services. We noted three instances where the Cow Palace received services without establishing a formal written agreement. In one instance, one contractor received varying monthly payments. Without a contract, we could not determine if this contractor was appropriately classified. According to the APM, Fairs are required to complete a Standard Agreement for all personal services provided to the Fair.

Furthermore, our examination of the Standard Agreements also noted one contract exceeding \$5,000 for which the Cow Palace has no evidence of a formal bid. The state Contracting Manual, Section 5.06, dictates that state contracts of \$5,000 or more must have evidence that bids were obtained. Furthermore, Section 5.08, Competitive Bidding Options, states that "three competitive bids or proposals are required."

*Recommendations*

*The Cow Palace should ensure that Standard Agreements are completed for all services provided to the Cow Palace. The Cow Palace should complete a Standard Agreement by formalizing the services to be provided and documenting (i) job duties and responsibilities, (ii) service period, and (iii) reporting relationship.*

*The Cow Palace should ensure it complies with the State Contracting Manual by obtaining competitive bids for all service contracts valued at more than \$5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.*

**SUPPORTING DOCUMENTATION FOR ADMISSION REVENUE**

The Cow Palace erroneously destroyed the individual daily ticket seller's reports for admissions. As a result, we were unable to verify the Ticketmaster's daily ticket summary report to the individual daily ticket seller's report. According to the APM, section 5.1, all records must be retained until an audit has been conducted; all of the retention periods are calculated from the date of last audit, unless otherwise specified. If there are any questions in regard to the destruction of a particular type of record, the Cow Palace should contact the Audit Office for further assistance.

*Recommendation*

*The Cow Palace should ensure that all records, including individual daily ticket seller's reports, are properly maintained in accordance with the records retention policy as outlined in the Accounting Procedures Manual.*

## CALCARD EXPENDITURES

We noted the Cow Palace used a state issued CAL-card to make lodging and airfare transactions. DGS guidelines regarding the use of the small purchase card, CAL-card, strictly prohibits cardholders from making these purchases. DGS guidelines specify that the CAL-card should not to be used for "...travel related items – meals, lodging, airfare, car rental, gasoline..."

Furthermore, we noted weaknesses in internal controls governing the use of the CAL-card by its Chief Executive Officer (CEO). More specifically, we noted that the approving official of the CEO's CAL-card expenses is a subordinate of the CEO, which weakens the internal controls over the use of the CAL-card.

### *Recommendations*

*The Cow Palace should be aware of the policies and procedures associated with the use of the CAL-card and prohibit its use by employees to incur travel related expenditures. Instead, the Cow Palace should utilize a Travel Expense Claim (TEC) as a source of reimbursement of any travel related expenses incurred by the Cow Palace personnel.*

*A supervisor, preferably a board member, should approve all of the CEO's CAL-card statements. Therefore, the Cow Palace should add the board member as the approving official for the CEO's CAL-card account*

## CASH RECEIPTS

The Cow Palace did not deposit receipts in a timely manner. According to F&E's APM, timely deposits are essential to mitigate the possibility of a loss of funds by the Cow Palace. Furthermore, the Cow Palace is required to make bank deposits the next business day when currency exceeds \$500 or when cash and checks in the aggregate exceed \$5,000. In addition, collections should be deposited within five business days and no collection should remain un-deposited for more than fifteen business days. In this instance, the Cow Palace allowed some deposits to exceed \$5,000 without making a bank deposit the following business day.

Our office noted weaknesses in the cash receipting procedures. The Cow Palace did not maintain adequate control of its blank receipt stock. Our audit identified receipts were not issued in sequential order. Receipts were maintained in sequential order in binders; however the receipts were not in chronological order (for example, voucher #1925 is dated 10/09/2007 and voucher #1926 is dated 6/21/2007). Additionally, the Cow Palace does not maintain copies of the deposit slips. The Cow Palace sends both the original and the yellow copy with the deposit to the bank. Furthermore, the box office, parking, and administration office each process and deposit receipts separately. It does not appear they maintained a log of the receipts submitted by these other departments.

*Recommendations*

*The Cow Palace should ensure cash receipts are deposited within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.*

*The Cow Palace should develop proper procedures for internal control of its cash receipts. The Cow Palace should reconcile and summarize the cash receipts on a monthly basis. Tracking receipts on a log and monthly summarization would help ensure all receipts are recorded in the general ledger and aid in the preparation of the year-end Federal Labor Standards Act recreational exemption.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**

## STATE OF CALIFORNIA

### MEMORANDUM

Michael J. Wegher, CEO  
*I-A District Agricultural Association*  
P.O. Box 34206  
San Francisco, CA 94134-0206

Phone: (415) 404-4100

FAX: (415) 337-0941

**DATE: November 18, 2008**

**SUBJECT: AUDIT RESPONSE – REPORT #08-001**

**TO: Ron Shackelford, Audit Chief**  
**Department of Food & Agriculture**  
**1220 N Street, Room 344**  
**Sacramento, CA 95814**

The following are the Cow Palace responses to the reportable conditions as defined in the audit report #08-001, performed August 18-29, 2008:

#### **USE OF STATE VEHICLES**

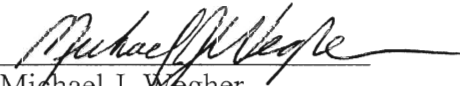
1. The Deputy Manager I, Maintenance & Operations has been provided with a copy of the audit finding. She has control for the vehicles and records and will be required, on a monthly basis, to verify that records are maintained. She will request permission from DGS, to use a substitute Form 273. Although the procedure of completing log books was reinstated last year, their use was not monitored during the year.
2. Each employee driving vehicles will receive the written policy, to be prepared by the Deputy Manager I. It will state that the vehicles are for "state use only."
3. Fuel consumption records will be more closely monitored and will be verified on a monthly basis.

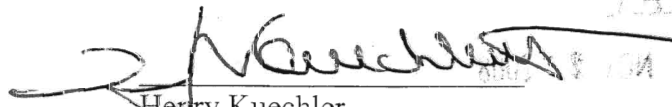
#### **CARNIVAL REVENUE**

4. See Number 5.
5. The issue has been brought to the attention of the newly hired CEO, who has stated that he has a relationship with the carnival contractor and intends to immediately resolve the matter. The new CEO will assume his position in two weeks.

#### **ACCOUNTING FOR FIXED ASSETS**

6. A Journal Entry has been done to adjust the balance.

  
Michael J. Wegher  
CEO

  
Henry Kuechler  
Board President

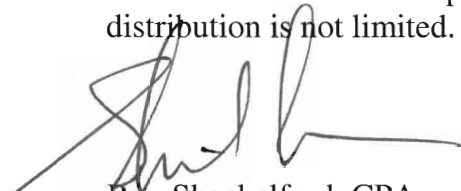
**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 1-A DAA – Cow Palace, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between August 18, 2008 and August 29, 2008. My staff met with management on August 28, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA  
Chief, Audit Office

August 29, 2008

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, 1-A DAA Board of Directors
1	Chief Executive Officer, 1-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office